



BAC 7710-FW-P

POSTAL REGULATORY COMMISSION

39 CFR Part 3050

[Docket No. RM2014-1; Order No. 1877]

Periodic Reporting (Proposals Six Through Nine)

AGENCY: Postal Regulatory Commission.

ACTION: Notice of proposed rulemaking.

SUMMARY: The Commission is noticing a recent Postal Service filing concerning the initiation of a proceeding to consider proposed changes in analytical principles (Proposals Six Through Nine). This notice informs the public of the filing, invites public comment, and takes other administrative steps.

DATES: *Comments are due:* December 2, 2013. *Reply comments are due:* December 9, 2013.

ADDRESSES: Submit comments electronically via the Commission's Filing Online system at <http://www.prc.gov>. Those who cannot submit comments electronically should contact the person identified in the **FOR FURTHER INFORMATION CONTACT** section by telephone for advice on filing alternatives.

FOR FURTHER INFORMATION CONTACT: Stephen L. Sharfman, General Counsel, at 202-789-6820.

SUPPLEMENTARY INFORMATION:

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I. Introduction

On November 8, 2013, the Postal Service filed a petition pursuant to 39 CFR 3050.11 requesting the Commission initiate an informal rulemaking proceeding to consider three changes to analytical principles for use in periodic reporting.¹ Petition at 1. The Petition labels the proposed analytical principle changes attached to its Petition filed on November 8, 2013 in this docket as Proposals Six through Eight. On November 12, 2013, the Postal Service filed an errata to its Petition to add Proposal Nine attached to its Revised Petition.² The changes contained in Proposals Six through Nine are described below.

II. Proposals

A. *Proposal Six: Proposed Changes in Stamp Fulfillment Services (SFS) Handling and Philatelic Sales Cost Estimation Models*

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposals Six through Eight), November 8, 2013 (Petition).

² Notice of the United States Postal Service of Revision to Add Proposal Nine to the Petition for Rulemaking – Errata, November 12, 2012 (Revised Petition).

To address a concern raised by the Commission in the FY 2012 ACD, the Postal Service proposes to update its methodology for calculating the costs for Philatelic Sales and the handling costs of SFS in order to align the product description in the Mail Classification Schedule (MCS).

To do so, the Postal Service proposes to update the cost model for SFS handling costs (StFS2012.xls) and the way handling revenue (the \$1.25 and the \$1.75 fees) is classified by not including the handling costs and revenue (the \$1.25 and \$1.75 fees) for Philatelic Sales in the SFS handling workpaper going forward. The handling costs of Philatelic Sales will be included solely in the Philatelic Sales cost estimation workpaper (StFS Philatelic2012.xls). *Id.*

The Postal Service further states that this proposal also seeks to update the methodology in order to capture the window costs of Philatelic products sold in retail.

B. Proposal Seven: Change in Attributable Costs for Competitive Post Office Box Service Enhancements

The Postal Service states Proposal Seven updates and improves the methodology for developing attributable costs for the enhancements to competitive Post Office Box service, as requested by the Commission in the FY 2012 ACD at 163 and 199. There are two elements of these costs: (1) handling of packages from third-party carriers; and (2) information technology costs. *Id.*, Proposal 7 at 1.

The Postal Service filed under seal a non-public version of Proposal Seven in USPS-RM2014-1/NP1 which includes material provided under seal in the FY 2012 Annual Compliance Report, as well as updates to that material.³

The proposed methodology for information technology costs, (which is a description of the calculation done for FY 2012) entails consulting with Engineering to determine: (1) the estimated proportion of time spent by contractor engineers on maintaining the Competitive PO Box service website and software; (2) any server costs; and (3) any other contractor costs related to website and software development. The estimated time proportions are applied to the hourly rates of the contractor engineers involved to determine a labor cost, which is added to the server and additional contractor costs. *Id.*, Proposal 7 at 2. The Postal Service states the proposed methodology is a detailed description or explanation of the proposed calculations as requested by the Commission. *Id.*

C. Proposal Eight: Changes to MODS Operation Groups for Productivity Calculations

The Postal Service states that Proposal Eight would modify the MODS operation groups reported in Docket No. ACR2013 folder USPS-FY13-23 to reflect operational changes and other cost modeling requirements. In Docket No. ACR2012, folder USPS-FY12-23 provided MODS productivity data (TPF or TPH per workhour) for a variety of operation groups related to letter, flat, parcel, and

³ Notice of Filing of USPS-RM2014-1/NP1 and Application for Nonpublic Treatment, November 8, 2013.

bundle sorting. The MODS productivity data are used to parameterize a number of cost models presented in the ACR, which are used to compute disaggregated product costs for purposes including measurement of worksharing cost avoidances. *Id.*, Proposal 8 at 1.

The Postal Service further states that operational changes such as introduction and retirement of mail processing equipment periodically require conforming changes to MODS data reporting, as cost model structures are modified to reflect currently active operations. When equipment and associated operations are withdrawn from service, there may be no data, or insufficient data, for reliable productivity reporting. Less frequently, changes to MODS methodology may affect the validity of MODS data. *Id.*

The Petition includes a table of the twelve USPS-FY12-23 Group(s) and their respective Proposed Group for USPS-FY13-23. The Postal Service says that the productivity calculations for the new groups would continue to use the methods from USPS-FY12-23. As applicable, the mailflow models would employ productivities from the consolidated operation groups in place of the previous disaggregated groups. *Id.* at 2.

The Postal Service has filed modified versions of the USPS-FY12-10 and USPS-FY12-11 models with proposed changes highlighted in the models. The Postal Service notes that the productivity changes affect the non-machinable categories of mail as the manual letter productivities affect those categories the

most. Changes to machinable/automation rate categories are because of the change in the CRA adjustment factor. *Id.* at 4.

D. Proposal Nine: Changes in In-Office Cost System (IOCS)

Encirclement Rules

In Proposal Nine, the Postal Service proposes to update the encirclement rules for Delivery Confirmation to reflect changes in products. In the In-Office Cost System (IOCS), encirclement is the process of assigning the cost of handling a mailpiece with an Extra Service to the Extra Service rather than to the host mailpiece. The Postal Service states that encirclement is warranted when an Extra Service is the primary reason that an employee has to handle a mailpiece. Revised Petition, Proposal 9 at 1.

Specifically, the Postal Service proposes to stop encircling costs at acceptance to Delivery Confirmation for IOCS tallies after January 27, 2013 for Priority Mail (retail), Standard Post (retail), Parcel Select Lightweight, and First-Class Package Service. The Postal Service reasons that beginning January 27, 2013, the products began to include Tracking (Delivery Confirmation) as a free service. Therefore, after that date, costs should no longer be encircled to the Delivery Confirmation service, but instead should be assigned to the host product. *Id.*

III. Notice and Comment

The Commission establishes Docket No. RM2014-1 for consideration of matters raised by the Petition and the Revised Petition. For specific details on each of the proposals, interested persons are encouraged to review the Petition and Revised Petition, which are available via the Commission's Web site at <http://www.prc.gov>. The Postal Service filed portions of its supporting documentation relating to Proposal Seven under seal as part of a non-public annex. Information concerning access to these non-public materials is located in 39 CFR part 3007.

Interested persons may submit comments on the Petition no later than December 2, 2013. Reply comments are due no later than December 9, 2013. Pursuant to 39 U.S.C. 505, John P. Klingenberg is designated as an officer of the Commission (Public Representative) to represent the interests of the general public in this proceeding.

IV. Ordering Paragraphs

It is ordered:

1. The Commission establishes Docket No. RM2014-1 for consideration of the matters raised by the Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposals Six through Eight), filed November 8, 2013 and the Revised Petition of the United States Postal Service for the Initiation of a Proceeding to Consider

Proposed Changes in Analytical Principles (Proposals Six through Nine), filed November 12, 2013.

2. Comments by interested persons in this proceeding are due no later than December 2, 2013. Reply comments are due no later than December 9, 2013.

3. Pursuant to 39 U.S.C. 505, the Commission appoints John P. Klingenberg to serve as an officer of the Commission (Public Representative) to represent the interests of the general public in this docket.

4. The Secretary shall arrange for publication of this order in the **Federal Register**.

By the Commission.

Ruth Ann Abrams,

Acting Secretary.

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